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May 30, 2008

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SUBJECT: AUDIT OF AMBULANCE ACCOUNTS RECEIVABLE

Introductory Remarks

In compliance with Article V, Section 6 of the San Bernardino County Charter, we have completed an operational audit on the Ambulance Accounts Receivable. Our audit was conducted in accordance with the generally accepted *Government Auditing Standards* issued by the Comptroller General of the United States of America.

Scope of Audit

The purpose of this audit was to review specific internal controls to determine the degree to which reliance could be placed on the department's controls and the extent to which further auditing procedures were necessary. We tested the completeness and existence of the accounts receivable balances and evaluated a statistically selected sample of transactions to determine whether adequate collection procedures were performed during the audit period of October 1, 2006 through December 31, 2006.

Results of Audit

In our opinion, the internal controls over the accounts receivable processes were not adequate. Exceptions were noted that require management's attention. However, our study and evaluation of the system of internal controls would not necessarily disclose all material weaknesses in the system. The conditions noted that require management's attention are discussed below.

We sent a draft report to the Department on May 5, 2008 and discussed our observations with management on May 1, 2008. The department's responses to our recommendations are included in this report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Lack of segregation of duties.

Per Internal Controls and Cash Manual Chapter 2—Internal Controls and Chapter 14—Accounts Receivable, no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or an asset. The person posting accounts receivable must be different from the person collecting cash or preparing bank deposits. However, the Collections Officers open the mail, prepare the cash receipt report, collect money, establish accounts, document the collections for accounts, update records, send monthly reports to patients, prepare a monthly report to management, and handle customer complaints.

Per Chapter 2, the existence and value of assets should be periodically verified and reconciled with prior records. There was no evidence of reconciliation or review of receivables by an independent person. Also, negative receivable balances were not questioned or recognized for three years.

Without segregating duties, any one person could perpetrate and conceal errors and irregularities in the normal course of his/her duties, which could result in the establishment of false accounts to divert collections, or ineffectively manage the accounts. Not segregating the duties for handling customer complaints and not performing periodic reconciliations of the accounts could result in management not knowing of inappropriate transactions.

Recommendation:

Accounts receivable duties must be segregated by reorganizing existing staff's assignments. Cash or checks should be received, opened and stamped by an independent employee other than the record keeper. An independent person should handle complaints.

An independent employee must conduct periodic reviews and reconciliations of the receivables. That employee should sign and date the document as evidence of the review. Immediate action should be taken against questionable balances and complaints.

Management's Response:

The Department is in the process of purchasing software that will allow security levels to be set so that accounts receivable duties may be segregated. Upon implementation of this software, existing staff assignments will be reorganized so that cash or checks received will be opened and stamped in by an employee other than the one that records the payments in the system. At this time, it is estimated that the software will be implemented July 31, 2008.

Monthly reviews and reconciliation of the receivables have always been in place although no signoff occurred on the reviewed documents. Signoff on current Fiscal Year monthly reviews and reconciliations is ongoing at this time.

Auditor's Response:

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

Finding 2: Lack of accurate recordkeeping.

Per Internal Controls and Cash Manual Chapter 2 and its questionnaire, all transactions and pertinent events should be accurately and properly recorded on documents and records. Billings must be generated in a timely manner for all services provided and costs incurred.

The auditor randomly selected 90 patient records out of 4342 patient records from the aging report. Of those 90 records, 30 patient records had been discharged. As a result, the following weaknesses were noted:

As of 12/31/2006:

- a) 13 out of 90 receivable balances do not reflect actual receivables. Balances were zeroed when they were sent to the Court or when they received a judgment against the patient.
- b) For 4 out of 90, the computer system was not updated when payments/refunds were made.
- c) For 4 out of 90, valid insurance/patient refunds and other adjustments were not made.
- d) 22 patients were not charged for services received.
- e) Appropriate and complete response logs were not always maintained by the outlying locations.
- f) No written procedures for managing accounts receivables were available for staff.

The lack of accurate recordkeeping could result in individuals being able to establish false accounts to divert collections for their use, allow ineffective management of patients' accounts, and allow thefts to go undetected. Without maintaining a proper log, patients may not be charged for services provided to them.

Recommendation:

Establish written procedures for managing accounts receivables and make it available to staff. Ensure that staff understands the procedures. Assign an independent person to conduct a periodic reconciliation of each location's response logs with the aging report to verify that all chargeable ambulance

services were invoiced. Assign an independent person to review and reconcile any negative or long-standing accounts receivable balances. Require approval by a higher-level person before reducing accounts to zero.

Staff in the outlying locations should be instructed to maintain better logs, record more details about the service provided, immediately input it into the system and forward the ICEMA form promptly for billing.

Management's Response:

Procedures currently exist and are being reviewed and standardized. Upon implementation of the new software, the procedures will be modified and training will be provided in conjunction with the training for the software.

Districts currently send all service tickets to Wittman for billing. Invoices received back from Wittman are reviewed by the Districts to ensure tickets billed and services received match what was sent to outsource for billing. ICEMA is not a billing agency but an oversight agency for all ambulance services provided in San Bernardino County.

The current software does not provide tracking mechanisms for accounts that have been sent to outside collections, therefore, they are reduced to zero and transferred to an Excel spreadsheet where they continue to be monitored. The new software does have the ability to monitor this type of account and all information that currently exists in Excel will be moved to the new software. Staffing levels do not allow for an independent person to reconcile accounts receivable balances but all accounts are reviewed by supervision prior to sending to outside collections and reducing to zero in the existing software.

Auditor's Response:

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

Finding 3: Lack of accounts receivables collection efforts.

Per Internal Controls and Cash Manual Chapter 8—Consolidated Banking and Chapter 14, departments must aggressively pursue the collection of outstanding accounts receivables. If a customer does not pay the amount due, the department must take the appropriate action under the provision of the applicable law or judgment to obtain payment.

The auditor randomly selected 90 patient records out of 4342 patient records from the aging report. Of the 90 items, 30 had no appropriate follow-ups or collection efforts. In addition, no action was taken against old balances. There were balances from as far back as 1988.

Recommendation:

Instruct staff to perform follow-ups and expend more effort to collect receivables.

Management's Response:

Ambulance billing has been outsourced (since March 2007) so more effort can be directed to collections efforts. Implementation of new software will increase productivity by providing additional tools and expediting processes that are currently tracked and followed up manually. Increased capabilities will include productivity reporting for staff activities as well as collections efforts. As of May 30, 2008 the oldest balances are from 2003. Accounts from 2003 and 2004 are currently being worked as priority and it is anticipated that by July 1, 2008 the oldest balances will be from 2005.

Auditor's Response:

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

Finding 4: The Department did not retain proper documentation for allowable discounts.

Good internal controls require the department to have written documentation for the allowable discounts made to clients.

Discussions with operating personnel and management indicated past management officials had been authorized to allow a 7% discount to cash customers for quick payments. However, no one had documentation to validate that the discounts or the discount rate was ever approved by higher authority such as the Board of Supervisors. In addition, the discount was applied haphazardly.

The County of San Bernardino may be losing revenue for services provided.

Recommendation:

Obtain written documentation and approval from higher authority regarding the allowed discount document or update the department policy to include this item.

Management's Response:

Discounts are no longer given for prompt pay by the Department.

Auditor's Response:

The Department's response corrects the deficiencies noted in the finding.

Acknowledgements

We wish to thank the management and staff of Ambulance Department for their assistance and cooperation throughout the audit.

Respectfully submitted,

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By: Howard M. Ochi, CPA
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Audit Report Distributed: 5/30/08

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